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BUSINESS CONCEPTS
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2020 - the Year for Tax Savings

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Currently in the internal revenue code there are many ideas outlined for saving income taxes, but in 2020 some of the old rules have been loosened up and some new provisions have been added.

Some of our clients across the country are having a high profit year, and some are struggling. This is obviously the year for everyone to take advantage of every tax provision available to you to save income taxes, recapture taxes paid and control the amount of taxable income that you will have this year.

The CARES Act was passed by Congress in March and it loosened up some of the old tax rules and created new money saving tax ideas for business owners and individual taxpayers. Many of those ideas are outlined in this article.

I. Tax Ideas for Taxpayers

1. IRA Decisions
   - Because of the CARES Act, you are not required to take the required minimum distribution (RMD) for 2020. If you do not need the income, you could leave the cash in the IRA account and let it continue to grow until you take your RMD next year.
   - If you normally make large gifts to charities each year, you should consider using the funds in your IRA rather than using your personal cash. The money that you put into your IRA was tax deductible. You can transfer a combined total of $100,000 to one or more charities in 2020 from your IRA without having to pay income tax on the distribution. This is financially better for you than using cash from your checking account. This idea is for individuals over the age of 70 ½ .
2. "Bunch" Charitable Gifting
   Because of the CARES Act, you can now make a large contribution to one or more charities and potentially drive your taxable income to zero. Normally in the past, you could reduce 60% of your taxes through charitable deductions. In 2020, you can eliminate up to 100% of your income taxes. One way of doing this is to establish a Donor Advised Fund (DAF) through a large custodian and then contribute a large amount of cash, or appreciated stock to that DAF in 2020. This will give you a large tax deduction in 2020, and then you can instruct the DAF to distribute the money in that account over the next two

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or three years or longer. By bunching several years of charitable contributions into one, you can get a larger tax deduction for this year. To go into more detail, call Castle Wealth Advisors.

3. Offset Gains Against Losses in 4th Quarter
Look at your investment statements, and if you have any stocks or equity mutual funds that are showing an excellent profit, consider taking those in the fourth quarter if you think these assets have reached a high point. At the same time, look at your investment statements and possibly take some of the losses that are showing up on those statements so the losses offset some of the gains. Saving taxes and keeping your cash is usually a good idea. If you have a financial advisory firm, be sure to work with them in October and November and decide if any of your personal holdings should be sold to capture some of your gains and capture some of the losses to help save taxes.

4. Maximize Contributions to Qualified Retirement Accounts
In good years and bad, try to contribute the maximum to any retirement account that you have established. If you have an IRA, Simple IRA, 403b, 401k, SEP, or other retirement accounts, contribute as much as possible, or the maximum limit to these accounts and this should be done every year during your 30 to 40-year business career. These accounts are tax deductible and the funds in these accounts accumulate every year tax-deferred. By putting money in these accounts every year you are diversifying yourself away from having all of your assets in the business.

This year, in January, Congress passed a law called the SECURE Act, and it changed one important rule pertaining to the beneficiaries of these qualified retirement plans. You should talk with your accountant, financial advisor, or Castle Wealth Advisors, about the primary beneficiary and the contingent beneficiary of these accounts. For example, if I made my children the beneficiary of my retirement account, under the old law, they could take money from the retirement account over their lifetime. Under the new SECURE Act provisions, they are now required to take all of the distributions over a maximum of 10 years. This increases the annual amount that my children would have to take and it may increase their tax bracket and increase the amount of taxes that they pay. This rule does not apply to my spouse, and a few other special provisions, but you should talk with your financial advisors about the provisions in the Secure Act and how it may affect your retirement account.

5. Gift Appreciated Stock to Children and Grandchildren
Here in the fourth quarter of 2020, you may have stock or equity mutual funds that have appreciated this year. If you are also thinking about gifting some money to children or grandchildren who are in a much lower tax bracket, consider gifting a few shares of your appreciated assets. For example, if you

bought an equity investment several years ago for $25,000 and it is now worth $50,000, that is a good candidate for possibly gifting part of it to children or grandchildren.

If you set up a custodian account for each beneficiary, then you can gift shares of that appreciated asset to them.

Since they are probably in a much lower tax bracket, they can immediately sell the stock and pay a very low capital gains tax of 15%, or possibly zero.

Gifting them highly appreciated stock or equity mutual funds is a better idea than gifting cash.

6. Use Lifetime Tax Exemption
If your personal net worth is between $6 million and $10 million or higher, talk with your personal financial advisors and/or tax attorneys about gifting some assets to children or other beneficiaries in order to use some of the current $11,580,000 lifetime tax exemption. This exemption is set to expire at the end of 2025. There is a chance that this exemption may be reduced to $3.5 million or $5.0 million each in 2026.

There are many ways to gift part of your net worth to your beneficiaries, but still maintain control of the asset. For example, married couples could establish a new Family Limited Partnership or a Limited Liability Company and then transfer a $1 million asset into the new entity. The new entity could be set up where 2% of the shares are considered voting interests and the remaining 98% would be considered non-voting interests. The parents would start by owning all of the voting and non-voting interests, but then gift/transfer some or all of the 98% non-voting interest to children or grandchildren over time. This way, the parents can maintain their 2% voting interest, but move or transfer out the non-voting interests from their taxable estate.

Every time we meet with a new client we talk about their wills, revocable living trusts, how their property is titled, and beneficiaries of different assets in order to completely understand how any changes in this lifetime or estate tax exemption will affect our clients and their families. If you have a high net worth, this is something you should think about.

II. Tax Ideas for Business Owners

1. Qualified Business Income (QBI)
Since 2017 pass-through entities such as S corporations and limited liability companies can use the

special rules for qualified business income which allows them to deduct potentially up to 20% of the business income on the tax return. There are rules pertaining to income limits for specific service trades or businesses so be sure to discuss with your accountant whether or not you qualify.

If you are in an industry that is having an excellent year then start talking to your accountants in October about how to maximize the QBI for 2020.

2. PPP Loan Forgiveness
   Make sure that you and your business accountant have provided all the documentation necessary to your bank lending officer, if you received earlier this year, a PPP loan. The rules from the SBA about how these loans will be forgiven have changed many times since March and April. Be sure to keep in touch with your banker about documenting how your loan funds were spent and make sure that you qualify for 100% forgiveness of that loan. These PPP loans have helped millions of businesses over the last six to eight months keep their doors open and continue to pay their well-trained and important employees.

3. Maximum Depreciation/Write-offs
   Start talking with your business accounting firm in October about depreciation, bonus depreciation, section 179, and other types of write-offs. Your CPA can advise you whether you should finalize new capital purchases before December 31.

   If you are in an industry that is having an excellent year, you want to work with your accountant and come up with all the deductions possible in 2020. All of these ideas will help save taxes on your profits this year.

   If you are in an industry that is struggling, then also spend time with your accountants and make your operating loss for 2020 as large as possible. Under the provisions in the CARES Act you can have a big loss in 2020 and use that loss to go back several years and pick up the taxes that were paid by your business over the last three to five years. Getting some of those taxes paid back into your checking account will help you tremendously as you prepare your budget for the new year.

4. Net Operating Losses (NOL) in 2020
   The NOL rules were loosened by the CARES Act for 2020. I also briefly mentioned this idea in #3 above. If you think that your business is going to have a loss in 2020, talk with your accountants about how to take advantage of the NOL and make the loss large enough to recapture some of the taxes paid in the past.

5. <u>Cost Segregation</u>
   Cost segregation is an old idea that has come back around again. Talk with your accountants and financial advisors about different ways to depreciate a new building that you bought this year, or you are going to buy in the near future. You can depreciate a building that you purchased over 39 years, however, the cost segregation idea allows you to separate the purchase price of a building and allocate part of the purchase price to heating and air conditioning items, plumbing items, electrical items, and other items in the building that usually do not have a depreciable life of 39 years. By dividing up the purchase price into different elements you can depreciate some of the purchase price at a faster pace.

Gary Pittsford, CFP®, is President and CEO of Castle Wealth Advisors, LLC. Castle specializes in helping families and closely-held business owners with valuations, succession planning, estate and income tax analysis and retirement income projections. Castle's senior partners work with clients throughout the country in making logical decisions that help them fulfill their personal and business financial goals. For more information visit www.Castle3.com, call 1-888-849-9559 or e-mail Gary directly at Gary@Castle3.com.